

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES
2012-13 GOVERNOR'S BUDGET MAY REVISION HIGHLIGHTS
May 15, 2012

On May 14, 2012, Governor Edmund G. Brown Jr. released a revised state budget that “protects funding for education and public safety while slashing \$8.3 billion from government to close a \$15.7 billion deficit and get California back on track.”

“This budget reflects the fact that the nation’s economic recovery is proceeding more slowly than anticipated,” said Governor Brown. “Lower tax revenues, coupled with federal government obstructions that blocked billions in necessary cuts, have created a deeper budget hole. More painful reductions will be necessary as a result, but education and public safety must be protected.”

“The revised May budget slashes spending in almost every part of government, but proposes a 16 percent increase in funding for K-12 education, subject to voter approval. It also continues funding to local governments that are implementing public safety realignment, and proposes legislation to create a permanent funding structure so that local governments will have a reliable funding source into the future.”

“The May Revision proposes cuts far deeper than those in the January budget. It increases cuts by \$4.1 billion, bringing total cuts to state employee compensation, welfare, health care, higher education, courts, and other critical government programs to \$8.3 billion.”

Specific May Revision proposals include:

Department of Developmental Services (DDS)

In addition to the specific proposed revisions below, the Governor’s May Revision proposes a trigger reduction, as of January 1, 2013, of an additional \$50 million general fund (GF) if the Governor’s revenue-related ballot initiative does not pass in November.

Community Services Program

- Projected total community caseload at 255,972, as of January 31, 2013, and assumes a decrease of 87 consumers from the 2012-13 Governor’s Budget. The May Revision also projects an increase of \$82.2 million (\$29.6 million

General Fund [GF] decrease) due to updated reimbursement, expenditure and utilization change estimates, and proposed savings solutions.

- Includes a \$29.3 million increase (\$63.3 million GF decrease) in regional center operations (OPS) and purchase of services (POS) due to updated caseload and expenditure data, including \$61.0 million in GF savings achieved through aggressive Home and Community-Based Services (HCBS) waiver enrollment toward meeting the FY 2012-13 reduction amount.
- Includes \$0.1 million increase (\$0.3 million GF) in regional center OPS for ICF-DD State Plan Amendment (SPA) Administrative Fees to reflect updated expenditures.
- Includes \$0.4 million increase (\$0.0 million GF) in POS to reflect updated expenditures for day treatment and transportation costs of ICF-DD residents.
- Includes \$1.6 million increase (\$0.4 million GF decrease) in POS to update the amount associated with the scheduled sunset of the 4.25% payment reduction on June 30, 2012.
- Includes \$0.3 million increase in Other Agency Costs to reflect implementation of a federal early start Race-to-the-Top grant that will fund activities focused on the early intervention system; participation in statewide efforts at the regional center, local education agency and family resource center level; and coordination of best practices in developmental and health screening at the local level.
- Includes \$40.0 million to reflect inclusion of California First Five Commission grant funding.
- Includes \$2.1 million to reflect the new federal restrictions on the amount of Money Follows the Person (MFP) expenditures.
- Includes \$0.3 million to reflect decrease in Medicaid federal matching funds for Targeted Case Management (TCM) Administration as a result of a decrease in the in the cost allocation as discussed earlier for current year.

Savings Solutions

In January, the full \$200 million GF savings was shown in the regional center estimate, but noted as a system wide reduction. Following are specific strategies to achieve the savings:

- **Maximize the Use of Federal Funding**

Currently, federal funding comprises nearly \$1.7 billion of the money available for regional center services. Through this proposal, additional federal financial participation is achieved, with a corresponding decrease in needed State GF dollars. The proposal includes two components, as follows:

- **Aggressive Enrollment to the Home and Community-Based Waiver**

With an aggressive enrollment campaign conducted by the regional centers, families, and providers, the Department anticipates savings of \$61.0 million GF under the HCBS Waiver Program.

- **Expansion of the federal Community First Choice Option (CFCO-1915(k)**

The Community First Choice Option (CFCO) is a State Plan service available under Section 1915(k) of the Social Security Act that provides an additional six percent in federal matching payment for certain eligible personal care activities. California submitted a CFCO SPA which is under consideration by the CMS. The Department is proposing to amend the State's 1915(k) SPA to include related services provided by regional centers. State Plan services are available to all Medi-Cal beneficiaries, thereby limiting the regional center services appropriate for inclusion in the CFCO. The proposal will require some bundled services, such as Supported Living Services, to be restructured to isolate the CFCO eligible services.

- **Savings:**

Total Funds (TF): \$0.0 million (fund shift)

GF: \$61.0 million (in addition to \$1.9 million already in the budget)

This proposal assumes an aggressive enrollment campaign involving the regional centers, families, and providers to increase the number of HCBS Waiver participants to the 100,000 cap by February 2013. Enrollment would continue with the increase of the cap in March 2013.

- Implementation of Senate Bill 946 – Insurance Coverage of Behavioral Services

- Chapter 560, Statutes of 2011 (SB 946) requires health care insurers to provide coverage for behavioral health treatment, for pervasive developmental disorder or autism. While the statute excluded CalPERS and Healthy Families coverage, the California Department of Managed Health Care (DMHC) recently announced that under the requirements of mental health parity, CalPERS and Healthy Families insurance plans would be required to cover behavioral health treatment.

- **Savings:**

TF: \$79.8 million

GF: \$79.8 million

This proposal assumes certain behavioral services will be available through private health insurance that are currently provided by regional centers to individuals who have a diagnosis of autism, have health care insurance coverage, and are not a Medi-Cal beneficiary. The cost of maintenance therapies was excluded from the estimated savings.

- Redesign Services for Individuals with Challenging Service Needs

California's service delivery system continues to face a growing need for specialty services for individuals with significant challenges and often resorts to high cost State-operated Developmental Centers (DC), locked mental health facilities and out-of-state placements to meet the immediate needs of these consumers.

- A moratorium on new admissions to DC's, with limited exceptions for individuals who are committed by the criminal or juvenile justice

system to restore competency; individuals involved in the criminal or juvenile justice system who are a danger to themselves or others whose competency cannot be restored; or individuals in acute crisis needing short-term stabilization.

- Operation of a short-term crisis program at Fairview Developmental Center to meet the needs of individuals in acute crisis that otherwise would likely result in placement in a locked mental health facility ineligible for federal funding. Crisis admissions will require a time-limited court order.
- A restriction on admissions to a DC as a result of criminal conviction or where the person is competent to stand trial for a criminal offense and admission is ordered in lieu of trial.
- A restriction on admissions to a DC when the Department determines it cannot safely serve the consumer without placing the safety of other residents at risk.
- Comprehensive assessments of the service and support needs and available resources for current DC residents.
- Expanding the Transition Services Unit at Porterville DC from 30 to 60 residents.
- Reducing reliance on service and supports ineligible for federal funding.
- Maximizing the use of Community Placement Plan program resources to meet statewide specialized service needs to reduce the reliance on the DC's, locked mental health facilities and out-of-state placements.
- Expanding the development of Adult Residential Facilities for Individuals with Special Health Care Needs (SB 962) statewide .
- There is proposed budget trailer bill language to implement these solutions.

■ **Savings:**

TF: \$20.4 million

GF: \$20.0 million

The savings associated with this package of proposals is interrelated and impacts both community and DC services. The savings in community services is estimated at \$11.7 million TF (\$10.0 million GF) primarily related to reduced reliance on facilities that do not receive federal funding participation. The savings in the DCs is estimated at \$8.7 million (\$10.0 GF) primarily associated with reduced admissions and increased federal funds.

● Redesign Supported Living Assessments

Supported Living Services (SLS) is a community living option that supports adult consumers who choose to live in homes they control through ownership, lease, or rental agreement. In supported living, a consumer pays for living expenses, (e.g. rent, utilities, food, and entertainment) out of Social Security income, work earnings, or other personal resources. The regional center pays the vendor to provide SLS. The consumer may also receive other kinds of publicly-funded services like Medi-Cal, mental health services, vocational services, and In-Home Supportive Services. Current statute requires an independent needs assessment for all consumers who have SLS costs that exceed 125 percent of the annual statewide median cost of providing supported living services. The assessment is completed by an entity other than the SLS agency providing service and is used during the IPP meetings to determine that authorized services are necessary, sufficient and utilize the most cost effective methods of service.

This proposal ensures that consumers in or entering supported living arrangements receive the appropriate amount and type of supports to meet the person's choice and needs as determined by the IPP team and that generic resources are utilized to the fullest extent possible. The IPP team shall complete a standardized assessment questionnaire at the time of development, review, or modification of a consumer's IPP. The questionnaire shall be used during the team meetings, in addition to the provider's assessment, to assist in determining whether the services provided or recommended are necessary and sufficient and that the most

cost-effective methods of supported living services are utilized. The department shall develop and post the standardized assessment questionnaire and provide it to the regional centers by June 30, 2012.

There is proposed budget trailer bill language to implement this solution.

■ **Savings:**

TF: \$7.6 million

GF: \$4.2 million

The proposal assumes all individuals residing in a supported living setting would receive a standardized assessment rather than the 3,000 consumers required to receive an independent assessment under current statute. Avoiding the cost of independent assessments (\$3.0 million TF) also contributes to the net GF savings from this proposal.

● Regional Center and Provider Rate Reduction

Regional centers and service providers have operated under a payment reduction since February 2009 when a 3 percent reduction was first initiated. The reduction was increased to 4.25 percent on July 1, 2010 and is scheduled to sunset June 30, 2012. The Governor's Budget in January did not assume the extension of the payment reduction but did assume the \$200 million GF trigger savings. Recognizing the significant impact of the payment reduction at its current level, the Department is proposing to decrease the amount of the reduction by 3 percent and continue a 1.25 percent payment reduction for regional centers and service providers to achieve \$30.7 million in GF savings. The provisions for workload relief associated with the current payment reduction will continue as well.

There is proposed trailer bill language to implement this solution.

■ **Savings:**

TF: \$45.5 million

GF: \$30.7 million

- Additional Cost Savings and Efficiencies

The Department has identified three additional areas of savings associated with reduced need for funding and efficiencies, as follows:

- Downsizing Funds

The Department budget includes funds earmarked for the downsizing of Community Care Facilities to allow them to meet federal requirements for funding participation. The need for these funds has declined due to prior proposals that restricted the use of Community Care Facilities that do not qualify for federal funding.

- “Gap” Funds

The Department budget includes funds earmarked to address the gap in federal funding when a Community Care Facility transfers ownership and is temporarily ineligible for federal funding until the facility is recertified. The need for Gap funds has declined due to efforts to minimize the time between change of ownership of residential facilities and certification for federal funding.

- Use of Technology to Achieve Efficiencies

The Department heard from many participants in the workgroups on how technology can assist in the delivery of services and assist consumers in their day to day lives. This proposal will focus, but is not limited to the following areas:

- √ Remote access to court proceedings for DC residents;
- √ Expanded use of electronic/virtual Direct Service Provider training methods; and
- √ Promotion of appropriate service delivery methods using existing and available technology, such as electronic visits to professionals for individual and group services.

■ **Savings:**

TF: \$5.2 million

GF: \$4.3 million

Developmental Centers

- Projected 1,544 average in-center residents. Funding decreases to \$550.2 million (\$286.2 million GF) and authorized positions decreases to 5,156.5; a decrease of \$9.0 million (\$2.6 million GF increase), and decrease in 96.5 positions.

■ Adjustments:

- √ \$13.0 million GF fund shift from Reimbursement due to the recent denial of certification for PDC STP.
- √ \$9.1 million decrease (\$10.4 million GF) which represents the developmental centers' portion of the savings solutions to achieve the \$200 million General Fund trigger reduction.
- √ \$0.02 million Federal Fund transfer from the Federal Foster Grandparent/Senior Companion (FGP/SC) program in the developmental centers to the community services program.
- √ \$2.1 million increase (\$1.1 million GF) for the restoration of a portion of one-time OE&E reductions.
- √ \$0.9 million (\$0.5 million GF) decrease is composed of the following:
 - ◆ An increase of 11 residents mainly due to an adjustment in Lanterman's placement due to fewer placements in FY 2011-12.
 - ◆ A net reduction of 6.5 positions (-7.0 positions in Level of Care (LOC) and an increase of 0.5 positions in Non-Level of Care (NLOC)) reflects and update for population of 10.5 positions and CDER data adjustment of -17.0 positions. The CDER data adjustment and a new preferred program for individuals with both developmental and mental health diagnoses (dual

diagnoses) was based on a recommendation by the Department of Finance – Office of State Audits and Evaluations.

- ◆ \$1.1 million (\$0.6 million GF) decrease compared to the Governor's Budget in Staff Support Costs/Resident Transition for the closure of the Lanterman Development Center. This reduction reflects updated expenditure needs.
- ◆ A decrease of 90.0 positions as required by Budget Letter 12-03, entitled "Adjust Budget Display to Reflect Actual Expenditures and Eliminate Salary Savings." The adjustment reflects a reduction of positions to fund overtime costs.

- Lanterman Developmental Center Closure Update

The Department, working with regional centers, now anticipates the transition of approximately 70 Lanterman Developmental Center (Lanterman) residents to community living arrangements during FY 2011-12. The May Revision anticipates the transition of another 110 residents to community living arrangements in FY 2012-13. This does not change the total anticipated placements for the two years, but instead adjusts the timing of the community placements. There is no change in funding for FY 2011-12 based on this adjustment.

For FY 2012-13, Lanterman has a net increase of \$0.5 million and a net decrease of 4.0 positions from the January Governor's Budget. This change in costs and positions include the following adjustments: updates to Staff Support Costs / Resident Transition (net decrease of \$1.1 million); an increase of 21.0 positions and \$1.6 million (average in-center population increase of 10 consumers); and a decrease of 25.0 positions related to Budget Letter 12-03, entitled "Adjust Budget Display to Reflect Actual Expenditures and Eliminate Salary Savings."

DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal Program

- Coordinated Care Initiative

The Governor's January Budget proposed a Coordinated Care Initiative (CCI) to integrate care for individuals who are eligible for both Medi-Cal and Medicare (dual eligibles). The CCI proposed to make health plans responsible for the delivery of all benefits by combining the full continuum of medical, long-term institutional care, and home- and community-based services for dual eligibles into a single benefit package, beginning in January 1, 2013. The CCI proposed to expand upon a previously authorized demonstration project for four counties by including ten counties in the first year and all counties by year three. (The Administration also proposed to expand Medi-Cal managed care to the 28 counties that are currently fee-for-service beginning in June 2013.) The May Revision proposes the following changes to the CCI:

- Delay the CCI start date from January 1, 2013 to March 1, 2013.
- Reduce the number of counties from ten to eight that will implement CCI in the first year.
- Phase in the long-term care benefits as each county transitions to managed care. (The Administration made this change in February; however, the May Revision estimates reflect this change.)

As modified, the proposal saves \$663.3 million General Fund (an increase of about \$41 million in savings compared to the January proposal), in 2012-13 and \$887 million General Fund (a decrease of about \$165 million in savings compared to the January proposal) when fully implemented.

- Proposition 10 Funding

Proposes \$40 million in funding to be provided by the First 5 California Children and Families Commission for Medi-Cal for children ages birth through five. This would decrease Medi-Cal General Fund spending by \$40 million.

- Decreased Caseload Projections for Medi-Cal.

Reflects updated caseload forecasts for Medi-Cal and a resulting decrease of about \$200 million General Fund in 2011-12 and \$700 million General Fund in 2012-13. The average monthly caseload for 2012-13 is projected to be 8,241,600, which represents a decrease of 106,200 enrollees from the Governor's January estimate.

- Community-Based Adult Services

Includes an additional \$71.7 million General Fund for the Community-Based Adult Services (CBAS) program for 2012-13. This increased funding is due to an increase in the percentage of Adult Day Health Care beneficiaries eligible for CBAS.

- Copayments

The May Revision includes copayments of \$15 for non-emergency room visits and \$1 and \$3 copayments for pharmacy based on the drug status and how medications are dispersed to achieve savings of \$20.2 million General Fund in 2012-13.

DEPARTMENT OF MANAGED CARE

- Expanded Oversight of Medi-Cal Dental Managed Care Program

Includes an increase of \$295,000 from the Managed Care Fund and three permanent positions to provide expanded oversight and consumer assistance relating to dental plans participating in the Medi-Cal Dental Managed Care (DMC) program. The positions would be responsible for (1) planning, preparation, and development of the tools and documents required to conduct annual dental plan surveys and financial examinations of Medi-Cal DMC plans, and (2) the increased consumer assistance workload generated at the department's help center due to the proposed transition of Healthy Families Program enrollees into Medi-Cal DMC commencing October 1, 2012.

- Coordinated Care Initiative (CCI) Oversight of Managed Health Care Plans

Includes an increase of \$1 million from the Managed Care Fund and 13 permanent positions to address the increase in workload associated with the implementation of the CCI. The positions would provide oversight of the managed care plans that will participate in the CCI through the development and completion of health plan surveys and financial examinations and plan network adequacy reviews.

DEPARTMENT OF MENTAL HEALTH

- Realigned Mental Health Services

The January Budget implemented the realignment of the Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) program and Medi-Cal Specialty Mental Health services (Mental Health Managed Care program). The May Revision includes \$584.2 million for the EPSDT program, a \$40.2 million increase from the Governor's January Budget. Additionally, the May Revision includes \$196.7 million for Medi-Cal Specialty Mental Health services, a \$7.9 million increase from the Governor's January Budget.

DEPARTMENT OF SOCIAL SERVICES (CDSS)

- In-Home Supportive Services (IHSS)

- Assumes a 7% across-the-board cut in IHSS hours to take effect on August 1, 2012. The current 3.6% across-the-board cut in hours sunsets on July 1, 2012.
- Assumes the elimination of domestic and related services for IHSS consumers who live with someone else with savings estimated at \$125.3 million.
- Continues to assume IHSS will become a capitated payment (per-person, per-month payment) to managed care plans that in turn would contract back with counties, public authorities and CDSS to provide services and program support.

- Proposes \$99.2 million GF savings from a seven percent across-the-board reduction in authorized IHSS hours effective August 1, 2012. This proposal would be in addition to a 20 percent across-the-board reduction, with exceptions, that was triggered in 2011 but enjoined from taking effect.
- California Work Opportunity and Responsibility to Kids (CalWORKs)
 - Includes several policy changes, including:
 - √ allowing work participation requirements to be met through any combination of state-allowable work activities in the first 24 months and federally allowable activities for up to 48 months rather than solely through paid employment;
 - √ eliminating the retroactive counting of previously exempt and sanctioned months towards the adult recipient's 48-month time limit; and
 - √ beginning October 2012, implementing a phased in approach to re-engage cases previously exempted under the short-term reforms that otherwise would sunset on June 30, 2012.
 - The overall General Fund savings associated with the CalWORKs budget is \$880 million, which is somewhat lower than Governor's January proposed savings.

CALIFORNIA COMMUNITY COLLEGES (CCC)

- Block Grant

The January budget proposed to eliminate nearly half of the existing K-14 mandates (including the **Disabled Student Services Program**) and provide \$200 million to fund a mandates block grant incentive program to reimburse K-12 schools and CCC districts for all remaining mandated activities. The May Revision proposes the following changes to the block grant program:

- Distribute funding equally on a per-student basis, or \$28 per student (the January proposal would have provided \$30 per K-12 student and \$20 per CCC student);

- Eliminate the existing mandate claiming process to ensure K-12 schools and CCCs are reimbursed at the same rate for performing the same mandate activities; and
- Add the Minimum Conditions for State Aid and Community College Construction mandates to the block grant and add the Discrimination Complaint Procedures mandate to the suspension list.
- Trigger Reduction

The May Revision increases the overall K-14 trigger cut by about \$300 million (in programmatic spending) should the voters reject the Governor's tax package. For the CCC, assuming the statutory 11 percent normally associated with the CCC's share of Proposition 98, the May Revision increases the CCC's programmatic trigger cut from \$292 million to \$325 million.

DEPARTMENT OF EDUCATION

- K-14 Mandates Funding

Continues to include an increase of \$110 million in 2012-13 to support a new mandate block grant program and clarifies the proposal would eliminate the existing mandate claiming process for K-12 and community college mandates. This will bring total funding for K-14 mandates to approximately \$200 million in 2012-13. The May proposal would update the block grant funding to provide a uniform funding rate of \$28 per student for all K-14 agencies, including K-12 school districts, county offices of education and charters schools, as well as community colleges. This rate change shifts an additional \$11 million from K-12 schools to community colleges, compared to January.

- School Transportation Funding Restored

Restores all \$496 million in funding for the Home-to-School Transportation funding in 2012- 13.

- Mandates Reform

As a part of the K-14 education mandate reforms, the Governor proposes to provide a total of \$167 million for K-12 mandates – an increase of approximately \$87 million in 2012-13 – for a new mandates block grant incentive program. The

Governor's block grant proposal would provide funding to cover about half of the state's K-12 mandates and would eliminate the remaining mandates.

- Trigger Cuts

In the event the Governor's ballot initiative does not pass, the May Revision proposes a trigger reduction of \$5.5 billion for K-14 education – a further reduction of \$700 million compared to the Governor's January proposal. Of the \$5.5 billion, \$2.8 billion would come from not paying deferral buy downs for K-14 education. The remaining \$2.7 billion reduction would be achieved through programmatic cuts to K-14 education. If the ballot measure fails, K-12 schools would be authorized to reduce the school year by a total of 15 days in 2012-13 and 2013-14. This would be in addition to the current flexibility districts have to reduce the school year by five days.

PROPOSED TEMPORARY TAXES AND TRIGGER REDUCTIONS

- Constitutional Amendment Increases Taxes

The May Revision is predicated on the passage of the Governor's tax proposal. This is a proposed Constitutional amendment that would raise the personal income tax and the sales and use tax on a temporary basis. Together, the proposed increase in the two taxes is expected to raise an additional \$8.5 billion through the budget year, representing \$2.9 billion to schools and community colleges and \$5.6 billion for General Fund benefit. The measure would also permanently dedicate revenues to local governments to pay for programs realigned in 2011.

- Personal Income Tax Rates on High Income Taxpayers

The proposal would increase personal income taxes for seven years, beginning in tax year 2012. Under current law, the maximum marginal PIT rate is 9.3 percent, and it applies to taxable income in excess of \$48,209 for individuals; \$65,376 for heads of household; and \$96,058 for joint filers. This measure temporarily increases PIT rates for higher incomes by creating three additional tax brackets with rates above 9.3 percent. Specifically, the measure imposes:

- A 10.3 percent tax rate on income between \$250,000 and \$300,000 for individuals; \$340,000 and \$408,000 for heads of household; and \$500,000 and \$600,000 for joint filers.

- An 11.3 percent tax rate on income between \$300,000 and \$500,000 for individuals; \$408,000 and \$680,000 for heads of household; and \$600,000 and \$1 million for joint filers.
- A 12.3 percent tax rate on income in excess of \$500,000 for individuals; \$680,000 for heads of household; and \$1 million for joint filers.

- Sales and Use Tax Rate Increase

The Governor's initiative would also raise the sales and use tax rate by 0.25 percent for four years. The tax increase would go into effect January 2013 and extend through December 2016.

- Trigger Cuts Absent New Revenues

In the event that the voters do not approve the Governor's tax proposal in November, the administration has proposed a series of trigger cuts, similar to those proposed as part of the January budget. These cuts would result in deeper cuts than originally proposed by the administration in a number of areas, especially K-12 schools and higher education. Reductions in these two areas constitute roughly 98 percent of the total amount and total \$6 billion.